MULTINATIONAL CORPORATIONS

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MULTINATIONAL CORPORATION

- GIANT BUSINESS ENTERPRISES WITH THEIR HEAD QUARTERS LOCATED IN ONE COUNTRY, MOSTLY IN DEVELOPED COUNTRIES AND WITH VARIETY OF BUSINESS OPERATIONS IN SEVERAL OTHER COUNTRIES
- ALSO KNOWN AS TRANSNATIONAL CORPORATION OR MULTINATIONAL ENTREPRISE
- IT IS A CORORATION OR AN ENTERPRISE THAT MANAGES PRODUCTION OR DELIVERS SERVICES IN MORE THAN ONE COUNTRIES
- STARTED IN 1860

DEFINITION: MULTINATIONAL CORPORATION

- ACCORDING TOUNO, “MULTINATIONAL CORPORATIONS ARE ENTERPRISES WHICH OWN AND CONTROL PRODUCTION OR SERVICE FACILITIES OUTSIDE THE COUNTRY IN WHICH THEY ARE BASED”

- DAVID E LILIENTAL DEFINES MNC AS “CORPORATIONS WHICH HAVE THEIR HOME IN ONE COUNTRY BUT OPERATE AND LIVE UNDER LAWS AND CUSTOMS OF OTHER COUNTRIES AS WELL”

MULTINATIONAL CORPORATION FEATURES

- HEAD QUARTER LOCATED IN HOME COUNTRY BUT OPERATES IN HOST COUNTRIES
- HUGE BUSINESS ENTERPRISES, GREAT DEGREE OF ECONOMIC DOMINANCE
- COMMERCIAL ORGANISATIONS
- CENTRALISED OWNERSHIP AND CONTROL
- DIRECT INVESTMENT BASE IN OTHER COUNTRIES
- LOCAL SUBSIDIARIES ARE MANAGED BY NATIONALS
- MUTINATIONAL STOCK OWNERSHIP
- IT ACQUIRES MORE POWER BY MERGERS AND TAKEOVERS
- LARGE PART OF CAPITAL IN THE PARENT COMPANY THAT OWNED BY THE NPEOPLE IN THE HOME COUNTRY.

FACTORS RESPONSIBLE FOR THE GROWTH OF MNCs

- INNOVATIONS
- MARKET FACILITIES
- TECHNOLOGICAL ADVANTAGE
- FINANCIAL SUPERIORITIES
- EXPANSION OF MARKET

BENEFITS FROM MNCs

- <u>BENEFITS TO THE HOST COUNTRY</u>
- TRANSFER OF TECHNOLOGY CAPITAL AND ENTREPRENEURSHIP
- IMPROVEMENT OF BALANCE OF PAYMENT POSITION
- CREATION OF JOB OPPORTUNITIES
- BETTER UTILIZATION OF RESOURCES
- AVAILABILITY OF PRODUCT TO LOCAL CUSTOMERS
- INCREASE INVESWTMENT
- ENCOURAGE WORLD ECONOMIC UNITY

BENEFITS FROM MNCs

- <u>BENEFITS TO THE HOME COUNTRY</u>
- ACQUISITION OF RAW MATERIAL FROM ABROAD AT LOWER PRICES
- ACQUISITION OF TECHNOLOGY MANAGEMENT EXPERTISE FROM ANYWHERE
- EXPORT PRODUTS IN TO FOREIGN MARKETS
- INFLOW OF INCOME BY WAY OF PROFIT, ROYALTIES, LICENCING FEE…..
- CREATES JOB OPPORTUNITIES

ENTRY STRATEGIES

- MNC CAN COMMENCE THEIR OPERATIONS IN INDIA UNDER THE PROVISIONS OF COMPANIES ACT 1956.
- ONCE A COMPANY INCORPORATE AS AN INDIAN COMPANY IT WILL BE SUBJECTED TO INDIAN LAWS AND REGULATIONS
- DIRECT INVESTMENT CAN BE DONE IN FOLLOWING WAYS
- LAISON OFFICE/ REPRESENTATIVE OFFICE
- PROJECT OFFICE
- BRANCH OFFICE

ENTRY STRATEGIES

Liaison Office/Representative Office: Liaison office acts as a channel of communication between the principal place of business or head office and entities in India. Liaison office can not undertake any commercial activity directly or indirectly and can not, therefore, earn any income in India. Its role is limited to collecting information about possible market opportunities and providing information about the company and its products to prospective Indian customers. It can promote export/import from/to India and also facilitate technical/financial collaboration between parent company and companies in India.

Approval for establishing a liaison office in India is granted by Reserve Bank of India (RBI)

Project Office: Foreign Companies planning to execute specific projects in India can set up temporary project/site offices in India. RBI has now granted general permission to foreign entities to establish Project Offices subject to specified conditions. Such offices can not undertake or carry on any activity other than the activity relating and incidental to execution of the project. Project Offices may remit outside India the surplus of the project on its completion, general permission for which has been granted by the RBI.

ENTRY STRATEGIES

... which has been granted by the RBI.

Branch Office: Foreign companies engaged in manufacturing and trading activities abroad are allowed to set up Branch Offices in India for the following purposes: (i) Export/Import of goods (ii) to render professional or consultancy services (iii) to carry out research work, in which the parent company is engaged. (iv) to promote technical or financial collaborations between Indian companies and parent or overseas group company. (v) to represent the parent company in India and acting as buying / selling agents in India. (vi) to render services in Information Technology and development of software in India. (vii) to render technical support to the products supplied by the parent/ group companies. (viii) Foreign airline/ shipping company.

A branch office is not allowed to carry out manufacturing activities on its own but is permitted to subcontract these to an Indian manufacturer. Branch Offices established with the approval of RBI may remit outside India profit of the branch, net of applicable Indian taxes and subject to RBI guidelines Permission for setting up branch offices is granted by the Reserve Bank of India

Branch Office on "Stand Alone Basis": Such Branch Offices would be isolated and restricted to the Special Economic zone (SEZ) alone and no business activity/transaction will be allowed outside the SEZs in India, which include branches/subsidiaries of its parent office in India. No approval shall be necessary from RBI for a company to establish a branch/unit in SEZs to undertake manufacturing and service activities

GROWTH STRATEGY FOLLOWED BY MNCs

- EXPANSION THROUGH CONCENTRATION
- EXPANSION THROUGH INTEGRATION
- EXPANSION THROUGH DIVERSIFICATION
- EXPANSION THROUGH COOPERATION

EXPANSION THROUGH CONCENTRATION

A FIRM THAT IS FAMILIAR WITH AN INDUSTRY WOULD NATUARALLY LIKE TO INVEST MORE IN KNOWN COMPANIES THAN UNKNOWN COMPANIES

- MARKET PENETRATION: SELLING MORE PRODUCT IN SAME MARKET WITH LOWER PRICES
- MARKET DEVELOPMENT: SELLING SAME PRODUCT TO NEW MARKET TO ATTRACT NEW CUSTOMERS
- PRODUCT DEVELOPMENT: SELLING NEW PRODUCT TO THE SAME MARKET

ADVANTAGES OF CONCENTRATION STRATEGY

- MINIMAL ORGANISATIONAL CHANGE
- SPECIALIZE BY GAINING DEPTH KNOWLEDGE
- DEVELOP COMPETITIVE ADVANTAGE
- EASILY MAKE DECISIONS
- SYSTEMS AND PROCESSES ARE FAMILIAR TO PEOPLE

DISADVANTAGES OF CONCENTRATION STRATEGY

- Dependent on one industry
- Factors such as obsolescence, fickleness of market, emergence of newer technologies are threat to concentrated firm
- Managers may not be able to sustain interest and find the work less challenging
- It may lead to cash flow problems.

EXPANSION THROUGH INTEGRATION

- Expansion through Integration means combining one or more present operations of the business with no change in the customer groups. This combination can be done through a value chain.

- Horizontal integration:

A business strategy in which one company grows its operations at the same level in an industry. Horizontal integrations help companies grow in size and revenue, expand into new markets, diversify product offerings, and reduce competition.

VERTICAL INTEGRATION

- Vertical integration refers to an expansion strategy where one company takes control over one or more stages in the production or distribution of a product. when a firm extends its operations within its supply chain.
- FULL INTEGRATION
- BACKWARD INTEGRATION
- FORWARD INTEGRATION

- PARTIAL INTEGRATION
  - TAPER INTEGRATION
  - QUASI INTEGRATION

EXPANSION THROUGH DIVERSIFICATION

The Expansion through Diversification is followed when an organization aims at changing the business definition, i.e. either developing a new product or expanding into a new market, either individually or jointly. A firm adopts the expansion through diversification strategy, to prepare itself to overcome the economic downturns.

1. CONCENTRIC DIVERSIFICATION

- Marketing related concentric diversification
- Technology related concentric diversification
- Marketing- technology related diversification

2. CONGLOMERATE DIVERSIFICATION

EXPANSION THROUGH COOPERATION

- a strategy followed when an organization enters into a mutual agreement with the competitor to carry out the business operations and compete with one another at the same time, with the objective to expand the market potential.
- MERGERS
- TAKEOVERS
- JOINT VENTURES
- STRATEGIC ALLIANCE

MERGER

- A merger is an agreement that unites two existing companies into one new company.
- merger is a legal consolidation of two business entities into one

1. Horizontal merger
2. Vertical merger
3. Concentric merger
4. Conglomerate merger

TAKEOVER STRATEGY

- A takeover occurs when one company makes a successful bid to assume control of or acquire another. Takeovers can be done by purchasing a majority stake in the target firm. Takeovers are also commonly done through the merger and acquisition process. In a takeover, the company making the bid is the acquirer and the company it wishes to take control of is called the target.

A. FRIENDLY TAKEOVER

B. HOSTILE TAKEOVER

JOINT VENTURE STRATEGY

- A joint venture (JV) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity.
- Temporary partnership
- Reasons:

a. Uneconomical to do alone
b. To share risk
c. Distinctive competence brought together
d. To reduce the political, cultural barriers ….

STRATEGIC ALLIANCES

- A strategic alliance is an arrangement between two companies to undertake a mutually beneficial project while each retains its independence. The agreement is less complex and less binding than a joint venture, in which two businesses pool resources to create a separate business entity.

1. Joint Venture
2. Equity Strategic Alliance
3. Non-equity Strategic Alliance.

PROBLEMS BROUGHT BY MNCs

- Profit oriented
- Interference in economic sovereignty of host country
- Transfer of technologies at high cost
- Strain on foreign exchange reserve
- Promote regional disparity
- Exploitation of labour
- Loss of culture
- Creation of monopolies
- Corruption
- Depletion of natural resources

ROLE OF MNCs IN INDIA

- PROFIT MAXIMISATION
- OUTFLOW OF FUNDS
- DIVERSIFICATION POLICY
- CONCENTRATION IN CONSUMER GOODS
- NO LATEST TECHNOLOGY
- WORSENING THE INCOME DISTRIBUTION
- NO SOCIAL OBLIGATION
- POLITICAL INTERFERENCE
- CULTURAL EROSION
- ENVIRONMENT POLLUTION AND THREAT TO ECOLOGICAL BALANCE

CRITISISM

- LESS FOREIGN CAPITAL
- VIOLATION OF LAW
- EVASION OF TAX
- MORE COSTS
- WASTAGE

COMPETITION LAW

- Competition law is the field of law that promotes or seeks to maintain market competition by regulating anti-competitive conduct by companies. Competition law is implemented through public and private enforcement. Competition law is known as "antitrust law" in the United States.
- A core objective of competition law is to prohibit firms for engaging in conduct which will distort the competitive process and harm competition by, for example, preventing firms from indulging in anti-competitive agreements, preventing firms with a powerful position on a market from abusing their market power

MRTP ACT 1969

- Section 10 of the MRTP Act, 1969 empowers the MRTP Commission to enquire into monopolistic or restrictive trade practices upon a reference from the Central Government or upon its own knowledge or on information.
- The objective of the MRTP Act and the Consumer Protection Act is to engender competition. The concept of public interest which includes consumer interest permeates the regulatory framework provided for the prohibition of monopolistic, restrictive and unfair trade practices in both the statutes.
- To ensure that the operation of the economic system does not result in the concentration of economic power in hands of few, To provide for the control of monopolies
- MRTP ACT 1969 REPLACED BY COMPETITION ACT 2002

NEED FOR A NEW COMPETITION LAW/ DEMERITS OF MRTP ACT 1969

- The inherent weaknesses in its own structure and the composition of the MRTP Commission.
- The attributes of competition were regulated by separate set of policies.
- Extreme Government Control
- Vague and Ambiguous Law
- "Per se rule" in place of "Rule of Reason"
- Dominance considered per se bad
- Excessive Export Promotion
- Voluntary Disclosure Policy
- Inefficient MRTP Commission
- Obsolete Law
- No Extraterritorial Application
- Penalties not laid down

COMPETITION ACT 2002

- The Competition Act, 2002 is a law that governs commercial competition in India. It replaced the erstwhile Monopolies and Restrictive Trade Practices Act, 1969.
- The Competition Act aims to prevent activities that have an adverse effect on competition in India.
- It is a tool to implement and enforce competition policy and to prevent and punish anti-competitive business practices by firms and unnecessary Government interference in the market. Competition laws is equally applicable on written as well as oral agreement, arrangements between the enterprises or persons.

OBJECTIVES OF COMPETITION ACT 2002

- To promote and sustain competition in markets
- To protect the interest of consumers
- To ensure freedom of trade
- To establish competitive commission of India(CCI)